
Alphabet

COMPANY ANALYSIS

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TMP X30F: Fundamentals of Business Finance

- From the Balance Sheet
 - Property, Plant, Equipment net* was **27% of total assets** in 2021
 - Vertical analyses showed that the amounts **stayed relatively the same amounts** for 2021 and 2020

				Vertical Analysis Below (Assignm	
				Enter Required Formulas	
				Balances as of	Balances as of
				Dec. 31, 2021	Dec. 31, 2020
input as of date=>					
	Most Recent	Most Recent - 1			
	Balances as of	Balances as of			
	Dec. 31, 2021	Dec. 31, 2020			
Property, Plant, Equipment, net	97,599	84,749		27%	27%
Intangible Assets (including Goodwill)	24,373	22,620		7%	7%
Deferred Tax Assets	14,796	11,563		4%	4%
Other Long-Term Assets	34,357	26,388		10%	8%
Total Assets	359,268	319,616		100%	100%

- Alphabet demonstrated high liquidity with its *Current Ratio* of 2.9 and high solvency with its low *Debt to Equity* ratio at 0.25

KEY OBSERVATIONS OF FINANCIAL STATEMENTS

- From the Income Statement
 - Revenues* **increased by 41%** and *Earnings before Taxes* **increased by 89%** between 2020 and 2021
 - Operating Income* **increased by 91%** between 2020 and 2021 while the **increase the year before was only 20%**

		Most Recent	Most Recent -1	Most Recent -2	Vertical Analysis Below (Assignment Step 6)				Enter Required Formulas	
		Year Ended	Year Ended	Year Ended	Enter Required Formulas				Dec. 31, 2021	Dec. 31, 2020
					Year Ended	Year Ended	Year Ended		vs.	vs.
	From BS tab	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019		Dec. 31, 2020	Dec. 31, 2019
Revenues		257,637	182,527	161,857	100%	100%	100%	<=s/b 100%	41%	13%
Costs and Expenses										
	Cost of Revenues	110,939	84,732	71,896	43%	46%	44%		31%	18%
	Sales & Marketing	22,912	17,946	18,464	9%	0%	11%		28%	-3%
	Research & Development	31,562	27,573	26,018	12%	15%	16%		14%	6%
	General & Administrative**	13,510	11,052	9,551	5%	6%	6%		22%	16%
	Depreciation/Amortization*	-	-	-	0%	0%	0%		0%	0%
	Other Operating Expenses	-	-	1,697	0%	0%	0%		0%	-100%
	Total Costs and Expenses	178,923	141,303	127,626	69%	77%	79%		0%	11%
Operating Income		78,714	41,224	34,231	31%	23%	21%		91%	20%
	Other expense (income), net	(11,674)	(6,723)	(5,294)	-5%	-4%	-3%		74%	27%
	Interest expense	(346)	(135)	(100)	0%	0%	0%		156%	35%
Earnings before Taxes		90,734	48,082	39,625	35%	26%	24%		89%	21%
	Tax Provision	14,701	7,813	5,282	6%	4%	3%		88%	48%
Net Income (Loss) before misc items		76,033	40,269	34,343	30%	22%	21%		89%	17%

KEY OBSERVATIONS OF FINANCIAL STATEMENTS

- From the Cash Flow Statement
 - Additionally, *net income* **increased by 89%** between 2020 and 2021 while it only **increased by 17%** between 2019 and 2020

		Most Recent	Most Recent -1	Most Recent -2	Horizontal Analysis Below (u)	
		Year Ended	Year Ended	Year Ended	Dec. 31, 2021	Dec. 31, 2020
	From IS tab	Dec. 31, 202	Dec. 31, 202	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
2	<u>Cash flows from operating activities:</u>					
3	Net Income	76,033	40,269	34,343	89%	17%
4	Addback: Depreciation and Amortization	12,441	13,697	11,781	-9%	16%
5	Addback: Stock-based compensation expense	15,376	12,991	10,794	18%	20%
6	Other changes	(12,198)	(1,833)	(2,398)	565%	-24%
7	Change in cash from operating activities	91,652	65,124	54,520	41%	19%

- Repayments of Debt* **increased by 921%** between 2020 and 2021, meaning that Google paid off a significant amount of debt during this time

8	<u>Cash flows from financing activities:</u>					
9	Proceeds from issuing stock	-	-	-	0%	0%
0	Repurchases of stock	(50,274)	(31,149)	(18,396)	61%	69%
1	Cash Dividends Paid	(10,162)	(5,720)	(4,765)	78%	20%
2	Proceeds from debt	20,199	11,761	317	72%	3610%
3	Repayments of debt	(21,435)	(2,100)	(585)	921%	259%
4	Other	310	2,800	220	-89%	1173%
5	Change in cash from financing activities	(61,362)	(24,408)	(23,209)	151%	5%

10-K Insights

1

Moonshots – Characterizing their future-minded investments and unconventional spirit, Google is known to take on new projects and “don't shy away from high-risk, high-reward projects” (page 5, Item 1. Business), such as with their investments in artificial intelligence (AI) research and quantum computing. This approach reflects an entrepreneurial or startup mindset even though they are a very well-established company in the tech industry, leading their acquisitions or R&D initiatives into emerging technologies as they have done with Youtube, Android, and more.

2

Revenue growth from advertising – Google's primary source of revenue came from advertising revenues on which they generated ads on properties such as Google Search, Youtube, and Google Network, for which they “generated more than 80% of total revenues from the display of ads online in 2021” (Page 54, Note 1. Summary of Significant Accounting Policies). This is significant as advertisements rely on its success of user base and commercial traffic through these online platforms while non-advertisement revenues come from Google Play, Hardware, Google Cloud Platform, etc for only the remaining 20%. Thus, Google places high priority on such commercial traffic by continually improving its platforms and making investments in emerging technology. \$209.5 million, of which Youtube ads was \$28.8 million, was generated from Google advertising out of total revenue (Page 60, Notes 2. Revenues).

3

High Risk Factors drives competitiveness – Google is constantly dealing with high competition in almost every segment of its business, which drives its initiatives towards innovation and R&D as recognized by how their “business is characterized by rapid change as well as new and disruptive technologies” and their competition from “Other online advertising platforms and networks”, “Other digital content and application platform providers,” etc (Page 7, Item 1. Business). Their secretary in the tech industry pushes them to be constantly evolving and competitive due to adapting technologies and user base changes, which is reflected in how their pushes towards investments and acquisitions.

10-K Insights

4

Significant investment in Property and Equipment – Holding locations globally in North America, Europe, South America, and Asia, Google invests in property for “office/building space and R&D sites around the world, [...] and data centers” (Page 24, Item 2. Properties). This is a significant portion of Google’s total assets at 27%, being \$97.6 million and involving \$24.6 million in purchase of Property and Equipment in 2021 (Page 53, Consolidated Statement of Cash Flows). This infrastructure is vital to Google’s performance with their thousands of workers globally and running of servers for their software platforms in which data centers, servers, and other facilities must be predominant and local to run its services, leading to their continued heavy investments into such initiatives.

5

Effect of COVID-19 on Company Financial Performance – While it’s been noted how the beginning of COVID-19 has affected company performance, the continuing effects of the pandemic is still noteworthy but is shifting as nations come out from quarantine and vaccines are available, seeing a “shift of user search activity to less commercial topics and reduced spending by our advertisers” (Page 31) even though there was an increase in users’ search activity. A noticeable increase in Google Search and other revenues is seen with an increase of “\$44.9 billion from 2020 to 2021” (Page 31). This shift from a more restrictive period during the pandemic is reflective in Google’s practices and metrics as there’s dramatic increase in revenues seen in Google advertising revenue of \$257.6 million in 2021 compared to \$182.5 million in 2020 and an even lower revenue of \$161.8 in 2019.

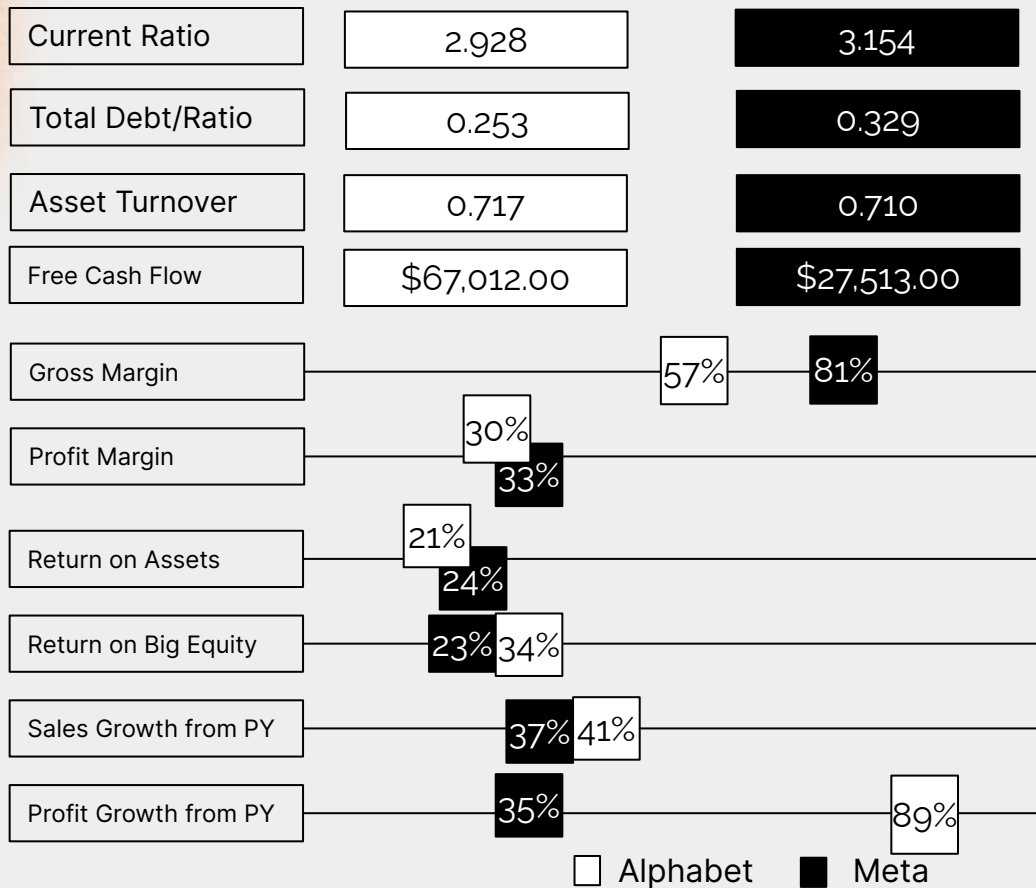
Sustainable Growth Analysis —————

Additional financing I would recommend to grow at a similar rate in the next year or two...

- Debt financing in which Google can issue bonds or take loans from financial institutions
 - Equity financing where they can issue new shares of stock to raise capital
 - Internally finance through its retained earnings or from their cash reserve to invest in R&D or acquire other companies.
-

Alphabet

Meta



Company Comparison —

- Both companies have very healthy liquidity as they are both very established companies in an industry that haven't hit their peak yet.
 - Both companies have a current ratio greater than 1 so they have sufficient current assets to meet current liabilities for which Meta has a slightly higher current ratio.
- Through the debt ratios, we also observe that Alphabet has higher solvency than Meta but both are still healthy with their low debt to equity ratios respectively.
- Both companies have a similar asset turnover ratio at 0.71, suggesting that both may be generating a similar amount of revenue per dollar of assets.
 - While they have low asset turnover ratios, we see that the profit margin for both companies are high at 30% for Alphabet and 33% for Meta, revealing that they are still able to generate high profits from its assets and remains financially healthy.
- Alphabet is generating significantly more cash from its operations than Meta, which is favorable to its investments in growth opportunities, paying dividends, or pay down their debt as Alphabet shows in its investments.
- Strong profitability is additionally shown by its relatively high Return on Asset ratios and further supported by their sales growth at 41% for Alphabet and 37% for Meta.
- Alphabet is more efficient at generating profit from equity invested by shareholders' through its higher Return on Big Equity ratio and ties into its strong profitability.